

## **FACT SHEET**

### **U.S.-Korea Memorandum of Understanding Market Access for Foreign Motor Vehicles**

#### **OVERVIEW**

The United States and the Republic of Korea (ROK) reached an agreement on October 20, 1998 that will substantially improve market access to Korea's historically closed automobile market.

Korea's automotive market access barriers were cited as a priority foreign country practice last year under Super 301 procedures. This designation resulted in the initiation of a Section 301 investigation, with a determination deadline of October 20, 1998. In an effort to address these market access barriers in Korea's auto sector, U.S. and Korean negotiators met four times over the past year and successfully concluded an agreement to further open the Korean market. Highlights of the new agreement are explained below.

#### **Motor Vehicle-Related Tax and Tariff Reductions**

- The ROK has committed to cut taxes, resulting in an average cost savings of over \$2,000 (2,750,000 won) per vehicle towards the purchase of a typical US vehicle and about \$4,000 (5,500,000 won) over the life of a vehicle. These include:
  - A 30% cut in the Special Consumption tax, until at least July 2005.
  - A 40% reduction in the rate applied to U.S.- type vehicles under the Annual Vehicle Registration tax and a narrowing of the tax differentials between categories.
  - A longer term commitment to simplify Korea's motor vehicle tax structure and reduce the tax burden on Korea motor vehicle purchases in ways that will advance MOU objectives.
  - An ROK commitment to eliminate entirely two taxes, the Education tax and the Rural Development tax.
- An ROK pledge to lower its WTO tariff bindings on motor vehicles from 80% to the current applied rate of 8%, and to actively participate in future multilateral negotiations aimed at reducing or eliminating tariffs in this sector.

#### **Standards and Certification**

- The ROK has committed to streamline Korean measures regarding standards and certification procedures to reduce costs and time delays incurred through redundant

testing and excessive documentation requirements. For example:

- The ROK will institute a self-certification system by 2002, which will allow U.S. manufacturers to certify their own products. This commitment will make Korea the third country in the world, in addition to the United States and Canada, to institute a self-certification system.
- The ROK will accept U.S. headlamp standards.
- The ROK committed to significantly streamline the current safety standard certification system.

### **Enhanced Motor Vehicle Secured Financing System**

- The ROK agreed to introduce a secured financing system for the purchase of motor vehicles that will enable Korean consumers to more easily finance purchases of U.S. vehicles.

### **Improving Public Perceptions**

- The ROK will continue steps, such as outreach, education, public discussion, and town meetings, to improve public perceptions of imports, and of trade and competition more generally.
- The ROK also committed to work to eliminate instances of anti-import behavior, such as discriminatory targeting of purchasers of foreign motor vehicles for tax audits.

### **Scope**

- The scope of the Agreement has been expanded beyond passenger vehicles to include sport utility vehicles and minivans.

### **Consultations/Goals and Objectives**

- The ROK agreed to ongoing consultations, to begin next Spring.
- The Agreement also set out general objectives, to substantially increase market access for foreign motor vehicles in Korea, and to establish conditions so that the Korean motor vehicle sector operates according to market principles.

### **Korean Motor Vehicle Industry and Market**

Foreign penetration of the Korean motor vehicle market consistently has been less than one percent, compared to roughly five percent in Japan, 25 percent in the EU, and 30 percent in the United States. While keeping its market almost totally closed, Korea pursued an aggressive

automotive expansion strategy. In 1996 Korea was the fifth largest motor vehicle manufacturer in the world, producing over 2.8 million units in 1996, 40 percent of which were exported.

The Korean market for motor vehicles has been hit hard by the financial crisis and the resultant economic downturn. In the first half of 1998, the low demand for motor vehicles resulting from the current economic crisis has precipitated a drop in domestic sales in Korea of over 50 percent and in total domestic motor vehicle production in Korea of 35 percent. Exports from the U.S. and other foreign suppliers have suffered even more severely from this downturn. Nonetheless, Korea is the second largest automotive market in Asia and potentially could become an important market for foreign vehicles once economic growth is restored. The trade liberalization measures contained in this MOU will serve to stimulate significantly foreign sales in the Korean market.

### **Overall Korean Economic Reform**

Korean industry, including the motor vehicle industry, is currently facing the consequences of years of non-economic business decisions. In response, the Korean government has moved swiftly to implement a wide range of economic reform measures, including structural reforms of the financial and corporate sectors. The Korean government has made clear its commitment to these reforms and its belief that they will effect a dramatic change in the Korean business environment and lead to a more market-oriented and transparent Korean economy and motor vehicle industry. This Agreement will supplement Korean government reforms and corporate sector restructuring to promote competition and encourage the operation of market principles. It will help promote a healthier Korean economy and significantly improve market access for foreign motor vehicle manufacturers.

Oct. 20, 1998